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This Week in Canadian Agriculture, Issue 15 2002

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Report Highlights:

"What's New, Eh?" * Spring Wheat/Special Crop Areas Down; Durum & Coarse Grains Up * Study Recommends Bridge Funding to Counter Foreign Subsidies * Vanclief Rules Out Trade Injury Compensation * Hog Numbers up Sharply in Western Canada * Beef Consumption Dips to Lowest Level in Four Decades * EDC Reports Strong 2001 Results Despite Drop in Export Sales * Western Grain Revenue Cap Price Index for Crop Year 2002/03 Announced * CWB Saves Prairie Farmers C\$10.4 Million in Second Quarter * Saskatchewan Spring Seeding Underway * Vanclief Announces Better Access to China for Feed Peas * SWP and AAFC Launch Two New Canola-quality Varieties

... AND MORE!

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Ottawa [CA1], CA

This Week in Canadian Agriculture is a weekly review of Canadian agricultural industry developments of interest to the U.S. agricultural community. The issues summarized in this report cover a wide range of subject matter obtained from Canadian press reports, government press releases, and host country agricultural officials and representatives. Substantive issues and developments are generally also reported in detail in separate reports from this office.

Disclaimer: Any press report summaries in this report are included to bring U.S. readership closer to the pulse of Canadian developments in agriculture. In no way do the views and opinions of these sources reflect USDA's, the U.S. Embassy's, or any other U.S. Government agency's point of view or official policy.

SPRING WHEAT/SPECIAL CROP AREAS DOWN; DURUM & COARSE GRAINS UP:

According to Statistics Canada, prairie farmers reported that they intended to plant larger areas of barley, oats, canola and durum wheat in 2002, but that they expected to reduce their seeded areas for spring wheat, field peas and flaxseed. Eastern farmers reported they would seed another record area to grain corn, but less to soybeans. For more information, see GAIN report CA2044.

STUDY RECOMMENDS BRIDGE FUNDING TO COUNTER FOREIGN SUBSIDIES:

According to the 26 recommendations to Prime Minister Chretien in the Prime Minister's Caucus Task Force on Future Opportunities interim report, the federal government should defend supply management and the Canadian Wheat Board as a state trading enterprise while advocating increased market access. In addition, the report calls for action on a number of fronts to help farmers, including: (1) A long-term national agriculture policy developed in consultation with stakeholders. (2) Safety net programs that respond to the needs of farmers by providing flexibility. (3) At a minimum, a guarantee to maintain current levels of safety net funding for five years. (4) Bridge funding to respond to "the adverse and unpredictable effects of weather, markets and income fluctuations due to factors beyond farmers' control." For more information, see GAIN report CA2043.

VANCLIEF RULES OUT TRADE INJURY COMPENSATION: According to an April 24 *Canadian Press* article, farmer's shouldn't count on a C\$1.3 billion in trade injury compensation recommended by the Liberal Task Force on Farming. In a meeting with farm groups in Alberta, federal ag minister Vanclief ruled out compensating farmers for lost revenue due to foreign government subsidies. Vanclief also rules out matching the subsidy payments of foreign governments. Vanclief noted that government farm assistance programs put C\$3.7 billion in farmers pockets last year, the highest amount in a decade, and farmers are expected to get another C\$1.8 billion this year.

EDC REPORTS STRONG 2001 RESULTS DESPITE DROP IN EXPORT SALES:

While Canadian export sales declined about 2% due to the global economic downturn, demand for Export Development Canada's trade finance and risk management services by Canadian companies grew to record levels. Canada's export credit agency reported that its services were used by more than 6,300 Canadian exporting companies to do more than C\$44 billion in sales and foreign investments in 165 countries and territories in 2001. The number of customers increased by 12% and the volume of business grew by 9% from the previous year. For more information, see GAIN report CA2042.

CANADIAN COMMERCIAL CORPORATION LEGISLATION COMES INTO FORCE:

According to a press release from the Canadian Department of Foreign Affairs and International Trade, Trade Minister Pierre Pettigrew announced that the new amendments to the Canadian Commercial Corporation (CCC) Act, which were tabled on November 7, 2001, have now come into force, strengthening its financial foundation and its corporate governance. The amended CCC Act allows the Corporation to borrow funds in commercial markets as well as to charge a fee for service on its valued-added business lines. Furthermore, the positions of President of the Corporation and Chair of the Board of Directors will be separated, in keeping with the government's guidelines for the management of Crown corporations. The CCC provides a unique service to facilitate contracts for Canadian exporters. This service means enhanced credibility for Canadian exporters and increased confidence for foreign buyers, and thus helps Canadian companies win contracts on solid terms in difficult markets. The CCC is a valued member of Team Canada. Over the years, the CCC has facilitated over C\$30 billion in contracts in more than 100 countries on behalf of Canadian companies, particularly small and medium-sized enterprises.

CTA OVER-RULES CN AND CP RAIL: According to an April 18 article from *Canada Newswire*, The Canada Transportation Agency (CTA) cleared the way for a public hearing into the plans of a small western railway to haul grain from Camrose, Alberta to Prince Rupert, British Columbia. The agency's decision over-ruled objections by Canadian National (CN) and Canadian Pacific (CP) railways to Ferroequus Railway's plans. Ferroequus filed an application with the CTA in October to carry Canadian Wheat Board (CWB) grain on CN track. Since then, the CTA has repeatedly dismissed objections brought by CN and CP. "The public interest is clearly at stake in this application," said Ferroequus President Tom Payne. "CTA ruling is an important step towards introducing competition and loosening the grip of monopoly power in the transportation of Prairie grain by rail." The Ferroequus application to haul grain to Prince Rupert over CN track is supported by the CWB, which stands to save money over what it currently pays to have CPR carry the same grain to the Port of Vancouver. The public hearing will begin April 29 in Winnipeg.

WESTERN GRAIN REVENUE CAP PRICE INDEX FOR CROP YEAR 2002/03

ANNOUNCED: The Canadian Transportation Agency (CTA), in Decision No. 202-R-2002, announced on April 25, that the CTA has determined the volume-related composite price index for crop year 2002-2003 to be: 1.0442 used to establish railway-specific revenue caps for the movement of Western grain for crop year 2002/03. This is 0.9% higher than for crop year 2001/02. This index is an inflation factor to cover Canadian National and Canadian Pacific Railway's price changes for railway labor, fuel, material and capital inputs. The revenue cap applies to the movement of grain by prescribed railway companies from Prairie elevators to terminals at Vancouver, Prince Rupert, Thunder Bay and Churchill. Effective August 1st, 2000, a new "revenue cap" regime for the movement of Western grain, by a prescribed railway company, replaced the former rate scale regime for such movements. As a result, the *Canada Transportation Act* requires the CTA to determine each railway company's revenue cap annually and to determine whether or not each cap has been exceeded by the railway company. The volume-related Composite Price Index is one of several inputs required in the determination of the railway company revenue caps. In the course of establishing the volume-related

Composite Price Index, the CTA consulted with parties in the grain handling and transportation industry including producer representatives, the Canadian Wheat Board, shipper organizations, railway companies, grain companies and federal, provincial and municipal governments.

CWB SAVES PRAIRIE FARMERS C\$10.4 MILLION IN SECOND QUARTER:

According to the Canadian Wheat Board (CWB), changes to the grain handling and transportation system-including grain company tendering, freight and terminal rebates and financial penalties for non-performance in the delivery of grain to port-resulted in savings of C\$10.4 million during the second quarter (November 2001 to January 2002) of the current crop year. These savings are distributed to farmers through the CWB pool accounts. More information about the transportation system and how savings are being generated can be found on the CWB Web site at: http://www.cwb.ca/grainmov/trans_agree/gmr1.s

ALBERTA PRIVATE MEMBER'S BILL CALLS FOR DUAL MARKET: The April 22 edition of *Agriline Daily* reported that a private members bill in the province of Alberta legislature would enable the provincial agriculture minister to negotiate a dual market for wheat and barley for Albertan farmers whereby they could choose to sell to the Canadian Wheat Board (CWB) or not. Should the bill be enacted, as provincial law, it would have no authority to force Ottawa into negotiations.

NEW ONTARIO ETHANOL CO-OPERATIVE FORMED: The April 15 edition of *Good Morning Ontario* reported that Integrated Grain Processors (IGP) Co-operative Inc. is Ontario's newest ethanol co-operative. IGP says it will be undertaking a comprehensive feasibility study to determine the economic viability of a major ethanol- manufacturing facility in Southern Ontario. The proposed ethanol facility, estimated to cost between C\$50-70 million, would provide a major market for Ontario corn. IGP says it plans to explore opportunities for establishing joint ventures or strategic alliances with companies involved in the distribution of ethanol and the co-products of ethanol manufacture. The Co-operative is the outcome of efforts by Brant Agri-Business to boost farmers' incomes and support rural economic development.

HOG NUMBERS UP SHARPLY IN WESTERN CANADA: Statistics Canada reports that Canadian hog inventories on April 1, 2002 were 4.1% above last year's level on that date. Western farmers were responsible for the entire expansion and inventories in the West climbed 11% over the year to a record 5.8 million hogs. Manitoba alone was responsible for a 16% year-to-year increase, as producers responded to rising demand on both sides of the border. Hog numbers in the East were 1% below a year ago, but the majority of Canadian hogs, 7.4 million, were on Eastern farms, principally in Quebec and Ontario, the two largest hog-producing provinces. The East still accounts for 56% of the national hog herd. Hogs sales are an important component of farm cash receipts in Canada. In 2001, hog receipts grew 14% to C\$3.8 billion, 38% above the previous five-year average. Most of the increase was due to revenue generated from domestic slaughter, as prices rose and marketings reached record levels. Receipts from export sales, mostly to the United States, rose 24%. The Canadian hog sector has expanded by over 30% since 1990. Inventories in the West climbed 48%, while Eastern expansion was limited to 19%. During the same period, says the Statistics Canada report, the number of hogs on U.S. farms rose by a more modest 15%. During the first quarter of 2002, the North American hog market became increasingly bearish.

VETERINARY DRUG STUDY PLANNED: According to the *Globe and Mail*, Health Canada will conduct a survey into the use of veterinary drugs. Part of an overall action plan, the health agency will survey farmers, feedlot operators and veterinarians. In September 2000, EC regulatory auditors visited Canada to evaluate the control of veterinary drug residues in live animals and animal products exported to the EU and released a scathing report of Canadian veterinary drug practices (see CA0183). Canada's action plan includes: 1) ensuring a national approach for the effective control of extra label use of veterinary drugs; 2) broadening the ban on the use of diethylstilbesterol (DES) in food producing animals and banning the sale of other drugs found on evaluation of new scientific evidence, to pose a risk to human health; 3) establishing legal limits for all veterinary drug residues under the authority of the Food and Drugs Act; and 4) implementing a mutually agreed sampling and testing program for food products of animal origin. Canada's farmers and ranchers sat the statistics show that incidences of high traces of veterinary drugs in Canada are rare.

ADDITIONAL FUNDS FOR CANADA-SASKATCHEWAN LIVESTOCK WATER

PROGRAM: Due to increased demand for water supply infrastructure assistance, Lyle Vancief, Minister of Agriculture and Agri-Food today announced C\$1.1 million in federal funding has been allocated for more than 800 projects under the Canada-Saskatchewan Livestock Farm Water Program (CSLFWP). The federal funding is in addition to C\$3 million offered last December to support initiatives that would increase water supplies in the drought-stricken areas of Alberta, Saskatchewan and Nova Scotia. One third of the federal contribution was allocated to develop water supply infrastructure in Saskatchewan. These funds were combined with a C\$1.5 million contribution from the Province of Saskatchewan to create the C\$2.5 million CSLFWP. The federal dollars spent on strategic water initiatives in Alberta complemented individual infrastructure projects already adequately funded by the Alberta government.

SASKATCHEWAN SPRING SEEDING UNDERWAY: According to Saskatchewan Agriculture's latest crop report, seeding is underway in parts of southwestern Saskatchewan. Southwestern areas report that close to one percent of the spring wheat and durum crops are planted. Other crops being seeded include oats, barley, and canola. Pre-seeding fieldwork, such as rock picking, tillage, and chemical and fertilizer application, is very limited across the province. Some eastern and northern areas of the province received welcome moisture during the past week. Forty-three percent of crop land topsoil moisture rated fair or better. Good moisture conditions are found mainly in the southeast. Thirty-one percent of topsoil moisture on hay and pasture land rated fair or better with reports of good moisture from parts of the eastern side of the province. As livestock producers prepare to move their stock onto spring pastures, there is concern about grass and water supplies. Strong winds causing soil erosion were a problem in the southwest, mid-central, west central, northeast and north central regions. Gophers are becoming pests in southeastern, southwestern, mid-central, west central, north central, and northwestern areas.

ENVIRONMENT CANADA PREDICTS WARMER/WETTER WEATHER FOR

SOUTHERN PRAIRIES: The April 23 edition of *AgriLine Daily* reported that Environment Canada is forecasting warmer and wetter than usual for the southern prairies but cautions that even if the prediction bears out, moisture will not return to normal levels. Drought conditions may not be reversed for two years. Fall and winter seasons were the fourth driest on record in southern prairies. Fall

precipitation was half of normal; winter precipitation was 45% of normal. Prairie-wide spring moisture so far has average slightly above normal.

VANCLIEF ANNOUNCES BETTER ACCESS TO CHINA FOR FEED PEAS:

According to an April 19, 2002 Agriculture Canada news release, China has lowered a tax on feed peas imported from Canada and other countries, following prolonged pressure from the Government of Canada. Agri-Food minister Vanclief announced the Chinese government is reducing the Value Added Tax (VAT) on feed peas from the current 17% to 13%. The reduction brings the VAT on feed peas, primarily used as swine feed, in line with the rate charged on other animal feed products. In the past, Canadian feed peas were taxed at the same higher level as dried peas used for human consumption. China is the fifth largest customer overall for Canadian dried peas, with Chinese imports valued at C\$27.1 million in 2001. Canada is also the largest supplier of dried peas to that country. In the last four years, Canada exported 270,000 tonnes of dried peas to China, valued at \$62.5 million. Shipments of feed peas to China will require a certificate from the Canadian Grains Commission indicating the product is 'feed grade.' As part of its commitments to the World Trade Organization when it joined the WTO, China has committed to reducing the import tariff on dried peas to 5%, thus achieving parity between feed peas and other imported feed ingredients.

SWP AND AAFC LAUNCH TWO NEW CANOLA-QUALITY VARIETIES: According to a joint news release from Saskatchewan Wheat Pool and Agriculture and Agri-Food Canada (AAFC) on April 22, SWP and AAFC researchers have broken new ground, introducing a whole new crop to western Canada that can be grown in hotter, drier regions of the southern prairies. Arid and Amulet, two new canola quality *Brassica juncea* varieties, are available to producers this growing season at SWP locations throughout southern Saskatchewan. Since 1991, the Pool and AAFC scientists at the Saskatoon Research Centre have worked closely to develop these new products using selective breeding techniques. Originally derived from mustard plants, these non-GMO varieties are more drought-resistant and produce canola-quality oil and meal. Arid and Amulet received registration and final regulatory approval on April 19, 2002. SWP CEO Mayo Schmidt says, "*Brassica juncea* adapts well to the southern Prairie climate providing better heat and drought tolerance and higher yields than traditional canolas."

TAX POLICIES KILLING MICROBREWERIES: The president and CEO of Unibroue, a craft brewery headquartered in Quebec, claims that the federal government is killing Canadian microbreweries by failing to reduce excise taxes for the category. In a press release, André Dion said, "To refuse to provide us with fiscal conditions that are similar to those in most industrialized countries, is, in essence, leading us to slaughter. In (most) countries, beer duties for small regional breweries are reduced in recognition of their distinctiveness." According to Dion, 38 of Canada's 86 regional breweries have been forced to shut down in the last five years. "Obviously," continues Dion, "extremely fierce competition in our market, combined with intense lobbying by American breweries, weighs heavily in the balance and puts us at a huge disadvantage." The microbreweries have requested a significant reduction in excise taxes that currently sit at 0.28 cents per liter of beer produced, regardless of production volume. Dion said that an American consumer pays C\$1.21 in beer tax on a case of 24 bottles, while Canadians pay C\$4.09 for the same case bought at a grocery store, and C\$6.72 when the product is consumed in an establishment. Dion claims that U.S. excise tax rates are a mere 0.09

cents Cdn. per liter for a brewery producing less than 1,000,000 hectoliters per year, while the base rate is 0.23 cents per liter for larger breweries. This 60 per cent reduction of the base rate is applied to the first 72,000 hectoliters produced by small U.S. breweries. Without similar measures in Canada, Dion believes that Canadian microbreweries cannot be competitive. Unibroue sells about 20% of its production outside of Quebec and exports to the U.S. through its subsidiary, Unibrew USA.

BEEF CONSUMPTION DIPS TO LOWEST LEVEL IN FOUR DECADES: According to Statistics Canada, record supplies of beef in Canada during 2001 were insufficient to offset record beef exports and as a result, per-capita beef consumption plunged to its lowest level in four decades. The statistical agency reported this week that each Canadian consumed an estimated 22.4 kg (retail basis) of beef in 2001, down 4.3% from the previous year as retail prices continued to climb. Canadian per-capita consumption of pork however, edged up 1.4% over 2000 to 22.0 kg. The increase was based primarily on record supplies.

MCDONALD'S TESTS VEGGIE BURGER: According to the *Globe and Mail*, McDonald's Restaurants of Canada Ltd., is test marketing the McVeggie Burger, a low-fat, soy-based vegetarian product at 31 selected restaurants in British Columbia's Lower Mainland (and one veggie friendly neighborhood in Toronto). If the 45-day trial period is a success, the company plans to make the McVeggie Burger available across Canada later this year. A vegetarian burger has been available at McDonald's outlets in select U.S. cities and in Europe reportedly for several years. A company spokesperson said McDonald's Canada's supplier will be Yves Veggie Cuisine of Vancouver, established manufacturers of a full line of low fat products sold fresh in food stores across Canada and the United States. McDonald's opened its first Canadian restaurant in Richmond, B.C., more than thirty years ago and today has more than 1,160 McDonald's Restaurants in Canada, serving approximately three million Canadians everyday and employing about 75,000 Canadians.

ALBERTA CONSIDERS ZERO-TOLERANCE POLICY FOR FUSARIUM: According to the April 19 edition of *Agriline Daily*, Alberta is considering a zero-tolerance for fusarium for feed grain imported from other provinces in an attempt to prevent the entry of the disease into the province. Testing would be required at point of origin. Currently, only seed is tested. Details should be available sometime in May. Fusarium emerged as a serious problem in southern Manitoba in the early 1990s and is now common as far west as eastern Saskatchewan.

COMPANY FINED FOR VIOLATING SEEDS ACT IN ONTARIO: According to the Canadian Food Inspection Agency (CFIA), Great Lakes Hybrids Inc. of Chatham has been fined C\$16,000 in provincial court after pleading guilty to violating the federal *Seeds Act*. The Michigan-based company was trying to take advantage of Canadian regulations, which allow farmers to import seed for their own use, but in this case, the government established that the farmers whose names appeared on import documents didn't know their names were being used. The soybean seed Great Lakes Hybrids Inc. brought into Ontario is of varieties registered for use in Michigan, but not registered in Canada. No genetically-modified seed was involved. The judge also put the company on two years probation "to keep the peace and be of good behavior and not to commit any similar offences against the Seeds Act."

Did You Know... that total U.S. agriculture, fish and forest product exports to Canada in 2001 (\$10.3 billion) exceeded the level exported to the fifteen European Union member states by more than \$2.3 billion for the same time period.

Recent Reports from FAS/Ottawa:

Report Number	Title of Report	Date
CA2044	Statistics Canada Releases March Seeding Intentions Report	4/25/2002
CA2043	Liberal Task Force on Farming Makes 26 Recommendations to PM Chretien	4/25/2002
CA2042	Export Development Canada Reports Strong 2001 Results Despite Drop in Export Sales	4/24/2002
CA2041	This Week in Canadian Agriculture, Issue 14	4/19/2002

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